

Message Text

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C O N F I D E N T I A L USNATO 1244

E.O. 11652: GDS, 12/31/80

TAGS: PFOR, ECON, EFIN, NATO

SUBJECT: NAC MEETING, MARCH 6, 1974, AGENDA ITEM II: EXPORT CREDITS

EXTENDED BY NATO COUNTRIES TO COMMUNIST COUNTRIES IN 1972

REF: A. STATE 42360

B. USNATO 1144

C. SATE 15379

D. USNATO 1176

E. STATE 44300

SUMMARY: COUNCIL DISCUSSION OF SUBJECT REPORT NOTED SIGNIFICANT INCREASE IN WESTERN CREDITS TO COMMUNIST COUNTRIES AND QUESTIONED WISDOM OF ALLOWING TREND TO CONTINUE IN VIEW OF INCREASING INFLATION, LOWER GROWTH RATES, AND WORSENING BALANCE OF PAYMENTS POSITIONS OF WESTERN COUNTRIES DUE TO INCREASED FUEL COSTS, AND GREATER NEED FOR CREDIT OF LDC'S COMPARED TO COMMUNIST COUNTRIES. SEVERAL COUNCIL MEMBERS EXPRESSED DESIRABILITY OF INCREASED CONSULTATION ON PART OF ALLIES REGARDING LEVEL AND TERMS OF CREDITS TO COMMUNIST COUNTRIES AFTER COUNCIL HAS HAD OPPORTUNITY TO CONSIDER FORTHCOMING COMPOSITE DOCUMENT ON SOVIET BALANCE OF PAYMENTS
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AND INDEBTEDNESS. NEED FOR ALLIES TO PROVIDE CREDIT INFORMATION MORE PROMPTLY WAS EMPHASIZED. QUESTION OF DECLASSIFYING REPORT DEFERRED PENDING CLEARANCE BY U.S. END SUMMARY.

1. ASYG PANSA INVITED DISCUSSION OF ECONOMIC COMMITTEE REPORT ON EXPORT CREDITS EXTENDED BY NATO COUNTRIES TO COMMUNIST COUNTRIES IN 1972 (C-M(74)10) BY NOTING DRAMATIC INCREASE IN NEW CREDITS EXTENDED BY ALLIANCE MEMBERS TO THE EAST, PARTICULARLY TO SOVIET UNION WHERE COMMITMENTS ROSE FROM \$145MILLION IN 1971 TO OVER \$1 BILLION IN 1972. HE ALSO NOTED GROWTH IN MEDIUM TERM CREDITS TO COMMUNIST CHINA AND INCREASE IN LONG-TERM CREDITS TO USSR AND EASTERN EUROPE. PANSA CALLED ATTENTION TO ESTIMATES THAT COMMUNIST COUNTRIES WILL BE SEEKING EVEN LARGER CREDITS IN FUTURE TO FINANCE DEVELOPMENT, AND SAID THIS MAY IMPLY WESTERN COUNTRIES SHOULD CONSULT ON TERMS OF CREDIT. WHILE CONSULTATIONS ON TERMS OF CREDIT CURRENTLY UNDERWAY IN OTHER FORA, PARTICULARLY OECD, PANSA SUGGESTED ALLIANCE MEMBERS SHOULD DO EVERYTHING POSSIBLE TO ENCOURAGE CONCERTED CREDIT POLICIES AND AVOID CUT-THROAT COMPETITION.

2. DE STAERCKE (BELGIUM) SAID IMPORTANT QUESTIONS WERE RATES AT WHICH COMMUNIST COUNTRIES BORROWED AND WHETHER DEBT BURDEN WAS ENDANGERING THEIR CREDIT WORTHINESS. NATO ECONOMIC DIRECTOR LAULAN RESPONDED THAT RECENT ECONOMIC COMMITTEE STUDIES OF SOCIET AND EASTERN EUROPEAN INDEBTEDNESS SHOWED THAT BURDEN WAS UNUSUALLY HIGH (20 PERCENT OF ANNUAL EXPORT EARNINGS) ONLY FOR ROMANIA, AND THA

SEVERAL WESTERN COUNTRIES HAVE TAKEN STEPS TO LIMIT CREDITS TO THAT COUNTRY. REGARDING TERMS OF CREDIT, LAULAN RECALLED THAT IN PREVIOUS NAC DISCUSSION CONCERNING TRADE WITH COMMUNIST COUNTRIES (US NATO 225) HE HAD MENTIONED THAT INCREASED SOVIET EARNINGS FROM OIL EXPORTS MAY REDUCE NEED FOR CREDITS AND ALSO USSR DEBT BURDEN, LAULAN SAID QUESTION ARISES WHETHER WITH INFLATION IN WESTERN EUROPE EXPECTED TO RISE TO 10-15 PERCENT, WEST SHOULD IN EFFECT SUBSIDIZE EXPORTS TO COMMUNIST COUNTRIES WITH CREDITS BEARING 7-8 PERCENT INTEREST RATES.

3. BUWALDA (NETHERLANDS) SAID THAT STAGGERING INCREASE IN NEW CREDITS, PARTICULARLY TO USSR, WAS DUE PARTLY TO 1971 BEING YEAR OF LIMITED CREDITS AND PARTLY TO LARGE SOVIET GRAIN IMPORTS
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IN 1972. BUWALDA SAID WEST SHOULD DEVOTE SPECIAL CONSIDERATION TO WISDOM OF LENDING AT RATES LOWER THAN INFLATION, PARTICULARLY WHEN BALANCE OF PAYMENTS POSITIONS ARE BEING ADVERSELY AFFECTED BY INCREASED FUEL PRICES. ALLIES SHOULD ALSO NOT FORGET, HE SAID, THAT LDCS NEED CREDIT MORE THAN THE COMMUNIST COUNTRIES. WHILE OTHER ORGANIZATIONS ARE LOOKING AT CREDIT WORTHINESS OF COMMUNIST COUNTRIES BUWALDA SAID THERE WAS STILL SCOPE FOR NATO TO CONSIDER CONSEQUENCES TO ALLIANCE OF INCREASING CREDITS TO THE EAST.

4. MENZIES (CANADA) SAID HE WAS NOT AWARE OF ANY SUGGESTIONS THAT EASTERN EUROPEAN COUNTRIES WERE IN DANGER OF BEING UNABLE TO MEET DEBT COMMITMENTS. HE ALSO CAUTIONED AGAINST DENYING COMMUNIST COUNTRIES SAME CREDIT TERMS AS APPLIED COMMERCIALY

TO REST OF WORLD SINCE THIS COULD ENDANGER POLITICAL RELATIONS WITH THE EAST. LAULAN REASONED THAT COMMUNIST COUNTRIES HAVE NOT DEFAULTED ON DEBT COMMITMENTS, AND THAT QUESTION OF CREDIT TERMS INVOLVED POLITICAL CONSIDERATIONS BEYOND THE SCOPE OF THIS STUDY. HOWEVER, HE ADDED THAT AS GROWTH RATES AND BALANCE OF PAYMENTS OF WESTERN NATIONS AND LDCS ARE ADVERSELY AFFECTED BY INCREASED FUEL COSTS, ALLIANCE MAY HAVE TO LOOK AT QUESTION MORE CLOSELY.

5. CARRAUD(FRANCE) SAID HIS GOVERNMENT CONSIDERS REPORT VALUABLE SINCE NO OTHER ORGANIZATION MAKES SIMILAR STUDY. HE SUGGESTED THAT ECONOMIC COMMITTEE PULL TOGETHER ALL ASPECTS INTO SINGLE DOCUMENT COLLATING BALANCE OF PAYMENTS, CREDITS, AND DEBT BURDEN. SUCH A REPORT SHOULD GIVE IDEA OF RECENT DEVELOPMENTS AND PROSPECTS WITHOUT RECOMMENDATIONS. LAULAN SAID ECONOMIC DIRECTORATE HAS JUST COMPLETED STUDY ON SOVIET BALANCE OF P

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